

Message Text

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22-11

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 SAM-01 FEA-01 AGR-05 /087 W

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R 201621Z NOV 75

FM AMEMBASSY MADRID

TO SECSTATE WASHDC 3728

C O N F I D E N T I A L MADRID 8180

E.O. 11652: GDS

TAGS: ECON, PINT, SP

SUBJ: NEW GOS ECONOMIC MEASURES: QUESTIONABLE TIMING

REF: MADRID 2400

1. BEGIN SUMMARY: GOS ANNOUNCED SERIES OF ECONOMIC MEASURES NOVEMBER 14 DESIGNED TO DEAL WITH MAJOR PROBLEMS OF INFLATION, UNEMPLOYMENT, AND BALANCE OF PAYMENTS DEFICIT. MEASURES INCLUDE HIGHER PRICES ON PETROLEUM PRODUCTS AND ELECTRICITY, ONE-YEAR EXTENSION OF WAGE AND PRICE CONTROLS, THREE-YEAR \$1.7 BILLION INVESTMENT PROGRAM IN HOUSING, AND TAX INCENTIVES FOR VARIOUS OTHER KINDS OF INVESTMENT. PROGRAM WILL AFFECT A LARGE PROPORTION OF POPULATION AND, ON BALANCE, WILL NOT BE POPULAR. ITS ANNOUNCEMENT AT THIS TIME GIVES SOME INDICATION OF GOS CONCERN OVER ECONOMIC CONDITIONS, BUT IT ALSO RAISES THE QUESTION OF WHY THE GOS CHOSE A PERIOD OF GREAT POLITICAL UNCERTAINTY TO IMPLEMENT SUCH MEASURES. END SUMMARY

2. NEW ECONOMIC MEASURES ANNOUNCED BY GOS NOV. 14 AND OFFICIALLY PUBLISHED NOV. 15 AND 18 ARE MAINLY AN EFFORT TO DEAL IN SHORT TERM WITH SOME ASPECTS OF MAJOR ECONOMIC PROBLEMS FACING SPAIN. THEY DO NOT PRETEND TO ATTACK SOME

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OF THE BASIC STRUCTURAL PROBLEMS OF THE SPANISH ECONOMY

SUCH AS THE NEED FOR FISCAL REFORM AND SO IN NO WAY REPRESENT A MAJOR NEW ECONOMIC POLICY ON THE PART OF THE PRINCE OR THE PRESENT GOVERNMENT. THEY WILL DO LITTLE TO RESOLVE THE PROBLEMS THEMSELVES BUT MAY HELP TO KEEP THE PRESENT SITUATION FROM GETTING MUCH WORSE UNTIL INCREASED FOREIGN DEMAND CAN BRING ABOUT RECOVERY FOR SPAIN.

3. PRICES FOR ALL MAJOR PETROLEUM PRODUCTS HAVE BEEN RAISED, SOME QUITE SUBSTANTIALLY. INDUSTRIAL FUEL OIL GOES UP 25 PERCENT, COOKING GAS 10 TO 30 PERCENT, DIESEL FUEL 4 TO 12 PERCENT, AND AUTOMOBILE GASOLINE 9 TO 24 PERCENT. GASOLINE PRICES WILL NOW RANGE FROM \$1.24/GAL. TO \$1.69/GAL. DEPENDING ON OCTANE. PRICE OF ELECTRICITY HAS BEEN RAISED BETWEEN 8 AND 20 PERCENT.

4. PROGRAM OF WAGE, PRICE, AND DIVIDEND CONTROLS ANNOUNCED IN APRIL (REFTEL) IS NOW EXTENDED ONE YEAR TO DEC. 31, 1976. A THREE-YEAR, \$1.7 BILLION INVESTMENT PROGRAM IN HOUSING IS DESIGNED TO DEAL WITH ESTIMATED 10 PERCENT UNEMPLOYMENT IN CONSTRUCTION SECTOR (COMPARED TO 5 PERCENT FOR ECONOMY AS A WHOLE). OTHER MEASURES GRANT TAX INCENTIVES FOR VARIOUS KINDS OF INVESTMENTS.

5. WITH INFLATION FOR LAST 12 MONTHS ON ORDER OF 17 PERCENT, AND WITH MANY LABOR CONTRACTS TO BE NEGOTIATED IN NEXT 6 MONTHS, THERE IS SOME REASON FOR RETAINING INCOMES POLICY, HOWEVER INADEQUATELY IT HAS WORKED. WAGE INCREASES WILL CONTINUE TO BE LIMITED TO INCREASES IN THE COST OF LIVING DURING PREVIOUS 12 MONTHS AND IN SOME CASES A FURTHER ONE TO THREE PERCENT WILL BE ALLOWED. HIGHER PETROLEUM PRICES WILL HAMPER EFFORTS TO REDUCE INFLATION BUT SHOULD HELP CUT LARGE BALANCE OF PAYMENTS DEFICIT. HOUSING PROGRAM IS UNLIKELY TO HAVE MAJOR IMMEDIATE IMPACT, AND, SPREAD OVER 3 YEARS, IS PROBABLY DESIGNED IN PART AS A LITTLE GOOD NEWS TO ACCOMPANY ALL THE BAD.

6. THERE IS CLEARLY SOME ECONOMIC JUSTIFICATION FOR THESE MEASURES, BUT THEIR ADOPTION AT THIS TIME WAS NOT ESSENTIAL. POLITICALLY, THE MEASURES, IN THEIR TOTALITY, WILL NOT BE POPULAR, PARTICULARLY WAGE CONTROLS AND GASOLINE PRICING, CONFIDENTIAL

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WHICH RAISES QUESTION OF TIMING. AWARE OF THE PROBLEM, THE MINISTER OF FINANCE TOLD CORRESPONDENTS AT THE CONCLUSION OF THE COUNCIL OF MINISTERS MEETING NOV. 14 THAT THE GOVERNMENT HAD A RESPONSIBILITY TO ADOPT NECESSARY MEASURES WHICH WOULD BE OF GENUINE SERVICE TO THE NEW SPANISH REGIME FOLLOWING THE TRANSITION. FAILURE TO TAKE STEPS TO KEEP THE ECONOMY AT A PROPER LEVEL WOULD BE A POOR SERVICE TO THE COUNTRY AND THE FUTURE MONARCHY, HE SAID. THE PRINCE CHAIRED

THE COUNCIL OF MINISTERS MEETING WHICH ADOPTED THESE MEASURES.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONTROLS, ANTIINFLATIONARY PROGRAMS, ECONOMIC TRENDS, ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 20 NOV 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975MADRID08180
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750405-0734
From: MADRID
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751125/aaaaavtp.tel
Line Count: 117
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 MADRID 2400
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 19 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <19 JUN 2003 by WorrelSW>; APPROVED <31 OCT 2003 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: NEW GOS ECONOMIC MEASURES: QUESTIONABLE TIMING
TAGS: ECON, PINT, SP
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006